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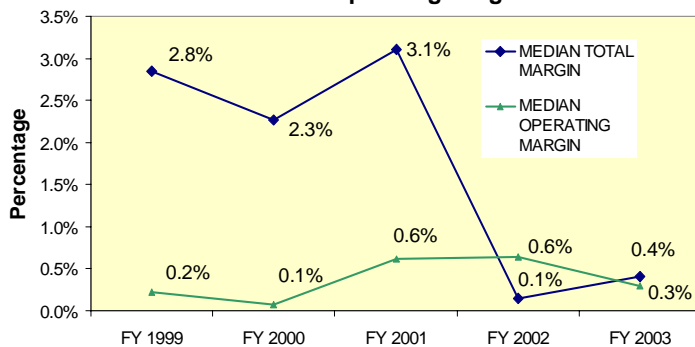
August 2004

Connecticut Acute Care Hospital Statewide Financial Analysis FY 2003

Introduction

The overall financial health of Connecticut's 31 acute care hospitals improved slightly during FY 2003. The statewide hospital median total margin increased from .1% in FY 2002 to .4% in FY 2003 due to increases in other operating income. The statewide median total margin edged slightly higher than the median operating margin after slipping below it in FY 2002. Unfortunately, the statewide median operating margin continued to erode, dipping to .3% in FY 2003 from .6% in FY 2002 as shown in the chart below indicating that many hospitals still face significant operational challenges.

Figure 1: Statewide Median Total and Operating Margins



Source: Connecticut Acute Care Hospital Audited Financial Statements

capital expenditures than they did in FY 2002.

Hospitals are simply managing to break even in their operations in this difficult environment which is apparent with an 8.5% increase in total hospital net revenues just surpassing the 8.3% increase in total hospital expenses.

Statewide Total Margin

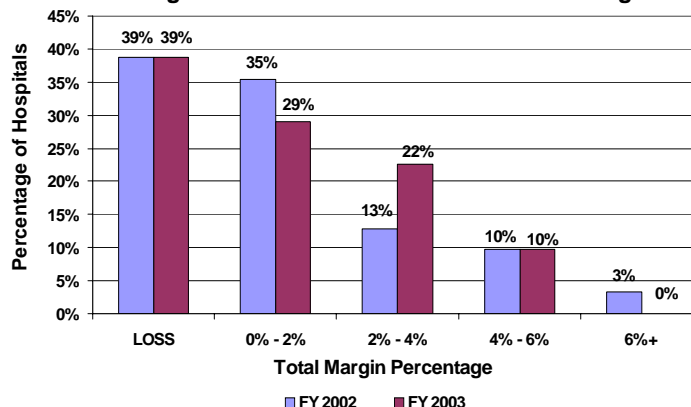
The downward trend of year after year total operating losses, that many hospitals have struggled with, appears to have stabilized in FY 2003 with the number of hospitals that had negative total margins remaining the same as in FY 2002. The statewide total margin increased in FY 2003 perhaps rebounding from the devastating losses in investment portfolios in FY 2002 that brought the statewide median total margin below the statewide median operating margin, an unusual occurrence. Hospitals rely on the added income generated from gifts and bequests as well as the appreciation in the value of their financial assets to subsidize low gains and losses from operations, replace obsolete equipment and fund new programs for patients. The chart below shows that the statewide distribution of total margins is similar in both FY 2002 and FY 2003.

The number of hospitals with negative total margins in FY 2002 remained unchanged in FY 2003.

Statewide Operating Margin

The number of hospitals with a negative operating margin increased to 13 in FY 2003, or 42% of all hospitals rising from 39% in FY 2002. Hospitals continued to struggle in FY 2003 to keep expenses below total revenues but are still being threatened by a surge in operating costs such as malpractice premiums which increased 65%, pension expenses which increased 63%, and employee fringe benefits which increased 17% from FY 2002 levels. Hospitals' fiscal limitations were also evident in FY 2003 with hospitals spending 7% less on

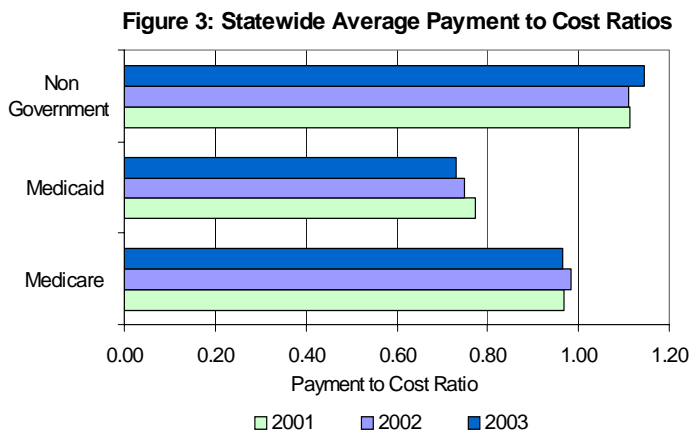
Figure 2: Statewide Distribution of Total Margin



Connecticut Hospitals' Three Year Trends

Total gross revenue for all Connecticut's acute care hospitals totaled nearly \$10.8 billion, an increase of 32% from FY 2001. In FY 2003 net revenue, the revenue actually received by hospitals, increased 19% from FY 2001 levels to \$5.2 billion. Inpatient net revenues continued to decrease by 1% a year to 62% of net revenues in FY 2003. Total hospital patient days and discharges both increased by 3%, the average length of stay remained at 5 days and hospital FTE's increased 6% from FY 2001 levels. Uncompensated care costs decreased by 4% in FY 2003 from FY 2001 and represented 2.8% of total expenses as compared with 3.5% in FY 2001. Overall, hospitals appear to be controlling costs as much as possible with limited flexibility in pricing and a steady volume of patients from year to year.

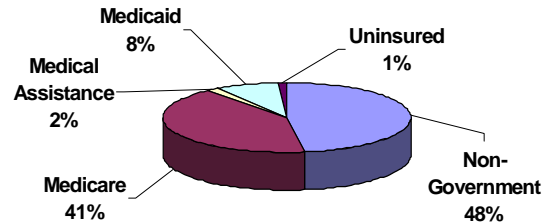
Reimbursement levels which can be measured by the payment to cost ratios for non-government, Medicaid and Medicare payers, indicate only minor year to year changes in reimbursement levels as shown below in Figure 3.



Payer Mix

Connecticut's acute care hospitals' payer mix has remained relatively unchanged for several years but did shift slightly in FY 2003. Net revenue from non government payers increased from 46% to 48%, while net revenue from government payers decreased by 2%, to 51% from 53% in FY 2002. See Figure 4 for an analysis by payer category.

Figure 4: Hospital Net Revenue Payer Mix



Conclusion

Fortunately, hospital finances appear to have stabilized after debilitating losses from increased operating expenses as well as losses in investment income. Connecticut acute care hospitals must continue to efficiently manage their operations in a challenging financial environment. Some hospitals may find it difficult to maintain financial health in the face of higher operating costs and only marginally higher revenues while earning sufficient income to make improvements to facilities and equipment. Detailed financial performance information on each of Connecticut's hospitals will be provided with the upcoming publication of OHCA's Annual Report on the Financial Stability of Connecticut's Short Term Acute Care Hospitals. For additional information on individual hospitals, please access OHCA's website at www.ohca.state.ct.us.

Notes

The data used in this report was compiled from data filed with OHCA by Connecticut's 31 acute care hospitals. Annual operating results are required to be filed with OHCA pursuant to Section 19a-644 and Section 19a-676 of the Connecticut General Statutes and Section 19a-167g-91 of the Regulations of Connecticut State Agencies. The data is based on the hospital fiscal year, which occurs from October 1st through September 30th of the following calendar year.

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